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FM AMEMBASSY BOGOTA
TO RUEHC/SECSTATE WASHDC PRIORITY 1809
INFO RUEHCV/AMEMBASSY CARACAS 0057
RUEHLP/AMEMBASSY LA PAZ MAR LIMA 5982
RUEHZP/AMEMBASSY PANAMA 1351
RUEHQT/AMEMBASSY QUITO 6634
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS BOGOTA 000901

SIPDIS

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TAGS: [ECON](#) [ETRD](#) [PGOV](#) [BEXP](#) [CO](#)

SUBJECT: WEATHERING THE VENEZUELA/ECUADOR CRISIS - GOC AND
PRIVATE SECTOR PREPARE CONTINGENCY PLAN

REF: A. (A) BOGOTA 800

[1](#)B. (B) BOGOTA 421

[1](#)1. (SBU) SUMMARY. Following meetings with business leaders, the GOC has announced a four-point contingency plan to stimulate the Colombian economy in the event Venezuela cuts all trade with Colombia for the killing of FARC senior leader Raul Reyes in Ecuador (ref A). While presented as a worst-case scenario contingency plan, GOC officials expressed concern a complete cut-off of trade with Venezuela could cost up to 1.3 percent of GDP growth and 100,000 jobs in 2008. Meanwhile, the Colombian stock market rallied and the Colombian peso stabilized amid investors' bets that a diplomatic solution to the crisis would succeed. END SUMMARY.

The Plan

[1](#)2. (SBU) Although Colombian border authorities tell us that the diplomatic crisis with Venezuela and Ecuador has yet to significantly disrupt or diminish trade flows, the GOC and private sector began preparing for the worst-case scenario--a complete cut-off of trade with Venezuela. After four hours of meetings March 5 with representatives of 16 leading business associations, Finance Minister Zuluaga announced a consensus plan to stimulate the Colombian economy. The general plan includes credits for small businesses, lower tariffs on raw materials normally imported from Venezuela, customs measures to avoid price manipulation of imports, coordinated efforts to develop export customers in other countries, and a potential relaxing of interest rates. The announcement included no specifics or estimated cost for the contingency plan.

[1](#)3. (SBU) Private sector representatives praised the initiative, in particular, the Central Bank's willingness to lower interest rates if the economy begins to slow. National Industrialist Association President Luis Carlos Villegas told EconCouns that the Bank would await March inflation figures before deciding to move. He added that the GOC plans to seek accelerated approvals of free trade agreements with Chile and Central America (now before Congress), and rapidly close the pending agreement with Canada. Villegas is optimistic about the country's capacity to adjust trade flows, remarking to the press that during a 2005 dispute with Venezuela Colombia successfully redirected almost USD 1 billion in exports from Venezuela to other markets. (NOTE: This was prior to the explosion of Colombian exports to Venezuela that has created

greater dependence. END NOTE)

¶4. (SBU) Luis Gustavo Florez, head of the shoe manufacturers association (ACICAM), acknowledged that more details on the proposed measures were necessary but said that government and private sector representatives had agreed to regroup within the next week to elaborate on the general outline. Private sector leaders have firmly backed President Uribe and the GOC's actions since the beginning of the diplomatic crisis.

Potential Economic Costs of the Crisis

¶5. (U) Following the meeting, Finance Minister Zuluaga announced that, in the event of a complete closing off of Colombian exports to Venezuela, the Colombian economy could shed as much as 1.3 percent of its projected 2008 GDP growth. Under this scenario, the GOC estimates the Colombian economy would grow 3.7. percent rather than 5 percent as currently envisioned and could lose between 80,000 and 100,000 jobs. Zuluaga emphasized that the estimate was based on an extreme-case scenario and that the current 5 percent GDP growth projection for 2008 already incorporates an anticipated decrease in automotive sector sales to Venezuela following its decision to restrict auto imports last month (ref B).

¶6. (U) Zuluaga's statements coincided with the release of official 2007 trade data showing that global Colombian exports rose from USD 24.4 billion to 29.9 billion. 5.2 billion, or 17.4 percent, of exports went to Venezuela -- the second largest trading partner -- while 34.5 percent of exports went to the U.S. Ecuador ranked as Colombia's third largest trading partner, with exports at 1.3 billion, .

Colombia's largest trade surplus was with Venezuela at 3.9 billion, up from 1.3 billion in 2006.

Local Markets Buoyed by OAS Diplomacy

¶7. (U) Despite lingering uncertainty, Colombia's stock market rallied March 5 after two straight days of losses on hopes that the GOC would resolve its dispute with Ecuador diplomatically through the Organization of American States. The market gained 5.2 percent--its strongest rise in six weeks--after falling by almost as much the day before. Local analysts said they now expected tensions to begin to diminish after the progress made in the OAS on a resolution to defuse the crisis. From the outset of the crisis, the peso has remained relatively stable, devaluing slightly to around 1850 per 1 USD.
Brownfield